

QUARTERLY REPORT

**Quarter I 2003
January 1, 2003 to March 31, 2003**

CADR QCP Central America and Dominican Republic Quality Coffee Program

**USAID/G-CAP
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Task Order No. 816**



Implemented by the Chemonics RAISE Consortium
Chemonics International Inc.
PRIME International, J.E. Austin Associates, NCBA/CLUSA,
and Sistemas Empresariales de Mesoamérica (SEM)

CENTRAL AMERICA AND DOMINICAN REPUBLIC QUALITY COFFEE PROGRAM

Quarterly Report January-March 2003

This first quarterly report will differ from subsequent reports in that it will present a brief overview of the project to familiarize the reader with its major elements. Additionally, there is no baseline for which to evaluate the progress and problems in implementation. In the section on Observations Regarding Implementation, potential implementation will be indicated and briefly discussed.

I. Background

The guiding principal for program design and implementation is to satisfy the primary quality coffee markets requirements so as to increase the consumption of coffees with the cup profile found in Central America and the Dominican Republic (CADR). As a result of matching supply with market demand, the program will endeavor to increase market share for these coffees and net returns to origin and its producers.

1.1 Objectives and Targets

Objectives

To recover the previous market share enjoyed by the CADR coffees the program will work in a coordinated fashion to:

- Identify and/or develop market opportunities, and
- Enhance the ability of CADR to,
 - Deliver high quality coffees
 - Improve business and marketing practices
 - Adopt market-based, competitive policies.

Targets

Activities under the CADR will complement other USAID-supported initiatives aimed at achieving Intermediate Result 1 of Strategic Objective 596-009: **“Improved Competitiveness and Sustainability of Quality Coffee Exports”**. Within that framework, the CADR program will contribute to the following targets:

- 25% increase in planted area producing quality coffee
- 25% increase in income for farmers engaged in quality coffee production
- 25% increase in the volume and value of the quality coffee exports from CADR

- 25% increase in the domestic consumption of quality coffee in CADR
- 30% increase in intra-regional coffee trade.

1.2 Areas of Focus

Components of the program that have defined the technical team and activity areas for implementation differ slightly from the three Sub-IRs in the RFP. For implementation purposes, Sub-IR2 has been divided into two components:

- Markets and marketing, and
- Enterprise development.

Markets and Marketing

The world coffee market has undergone radical structural changes since the late 1980s and, subsequently, CADR coffee exports have declined from approximately 18 million to 12 million bags over the past several years. A principal focus of the program will be to identify the markets in which CADR coffees continue to hold a comparative advantage, as well as work to create new opportunities through building market relations and promoting CADR coffees. Activities in origin countries will take their cue from these internal and export market opportunities.

Quality Coffee

Quality coffee is that coffee for which the buyer is willing to pay a higher than the going price. Coffee quality has been signature trait of CADR coffees and is increasingly a *sine qua non* for their competing in world markets. However, the key to success is to not to establish, *a priori*, a definition of quality, but rather, to determine the many demands by quality coffee buyers in the market and meet those requirements. Coffee quality is created in origin; and in order to provide quality producers must understand the needs of the buyer and the methods of conserving the natural quality of their region.

Enterprise Development

A successful buyer-seller relationship depends on more than the quality potential of a particular coffee. The quality of the enterprise will be at least as important in determining the sustainability of that relationship. A disciplined enterprise will guarantee coffee quality, business reliability and a level playing field for negotiating terms of trade.

Policy

Internal country and external trade policies, by commission or omission, can help or hinder the competitiveness of CADR coffees. Most of the policies now in force are not congruent with the new world market structure and focus more on individual origins,

rather than the CADR cup profile, which is the basis of competitiveness *vis a vis* other major coffees.

1.3 Elements of Strategy

Market Orientation: Market opportunities will set the stage for activities in origin countries.

Small and Medium Farmers: Producer target groups will be medium and organized small producers.

Regional and National: In view of the similar cup profile of the CADR coffees, a common promotional strategy will be used to recover market share and individual, differentiated origins will compete within this cup characterization.

Replicable Models: In view of time and resource limitations, the program will focus on creating successful models and experiences which can be replicated to expand CADR coffee sales.

Alliances and Associations: Success, within the limits defined by the program, will depend on building on existing production and marketing elements.

1.4 Human Resources

1.4.1 The Technical Team: Composition and Areas of Responsibility

- Michael Schwartz: Chief of Party
- Robert Babington-Smith: International Markets and Marketing
- Faye Campos: Markets and Marketing, applied to origin
- Enrique Abril: Enterprise Development and Financial Management
- Luis Enrique Delgado: Wet and Dry Milling and Quality Control
- Krystell Guzmán: Quality Control and Training for Quality

1.4.2 Marketing Advisory Group

The Marketing Advisory Group (MAG) was formed in order that the program and its constituents are better informed on market trends and directions. MAG is comprised of over fifteen prominent enterprises and organizations principally from the US coffee market and the wide range of market players represents specialty roasters and retailers, quality roasters, foodservice, importers, traders and other marketers.

1.4.3 Principal Subcontractors and Collaborators

Sistemas Empresariales de Mesoamérica (SEM): SEM is the principal subcontractor for program implementation and will have a major responsibility in the areas of:

- Enterprise development
- Monitoring and evaluation
- Market intelligence

Product Certifiers: Process and product certification is an increasingly important marketing tool and the program has enlisted three recognized organizations to collaborate in various aspects and objectives of certifications:

- Rainforest Alliance
- TransFairUSA
- Utz Kapeh

Coffee Quality Institute (CQI): CQI will be a major collaborator for specific and on-going technical assistance and for alternative coffee marketing mechanisms.

II. Quarterly Activities

The activities for the first quarter revolved primarily around program set-up and planning. Limited effort was dedicated to implementation and working directly with program client groups.

2.1 Planning Activities

2.1.1 USAID G-CAP Meeting (February)

The meetings organized by USAID/G-CAP in early February performed the dual purpose of presenting the program to USAID Mission and selected origin country personnel and receiving initial ideas from each country as to the activities of interest. The following summarizes the entities represented and the necessities and interests formulated by each country:

Costa Rica: (USAID, ICAFE and Asociación de Café Finos)

1. Education and Training
 - Coffee processing
 - Enterprise development
 - Quality control and certification
2. Standards and procedures for quality production and control in processing
3. Standards and procedures for quality evaluation and certification
4. Technical assistance in coffee processing

Dominican Republic: (USAID, CODOCAFE and ADOCafés)

1. Study of potential of the internal market associated with the tourist industry
2. Support for promoting Dominican coffees in internal and export markets
3. Market information network

4. Post-harvest infrastructure in selected zones
5. Support for a Broca eradication campaign
6. Technical assistance in coffee processing

El Salvador: (USAID, Consejo del Café and Ministry of Agriculture)

1. Support in forming and defining a Specialty Coffee Association
2. Assistance in formulating and support of an export promotion program
3. Support PROEXCAFE activities
4. Technical assistance in the quality control laboratory of the Consejo del Café
5. Technical assistance in coffee processing

Guatemala: (USAID and ANACAFE)

1. Technical assistance in coffee processing
2. Systems for post-harvest monitoring and quality control
3. Standards and procedures for quality classification, evaluation and certification
4. Assistance for certifying niche market coffees, including organic
5. Education and training in coffee quality
6. Support for the Appellation program for Antigua
7. Internal market development

Honduras: (USAID, IHCAFE and Asociación de Cafés Especiales)

1. Assistance in establishing market contacts and relationships
2. Assistance in organizing a national center for coffee quality
3. Assistance in improving cooperative coffee quality
4. Support for increasing participation in the Specialty Coffee Association
5. Training and assistance in producing and processing quality coffee
6. Assistance in quality evaluation and control

Nicaragua: (USAID)

1. Market study for roasting coffee in origin for export
2. Support for cooperative organizations (specifically CAFENICA)
3. Promotion of Nicaraguan coffee in export markets
4. Export coffee marketing by faith-based organizations (specifically CRS, World Relief and Lutheran World Relief)

Panama: (USAID and Asociación de Cafés Especiales)

1. Appellation of origin system
2. Technical assistance for small producer organizations to improve quality
3. Support the Specialty Coffee Association as the primary coffee organization
4. Training in coffee processing
5. Training in coffee quality evaluation and control

6. Technical assistance and training in enterprise development
7. Assistance in developing the internal market

2.1.2 Country Visits

Each of the six countries outside of the program office country, Guatemala, was visited for a three-day period to follow up on the contacts, requests and possibilities indicated in the February meetings. In all countries the USAID Mission (except Costa Rica) and the Ministry of Agriculture were included in the itinerary. It was envisioned that the results of these visits would provide guidelines for defining the first-year Work Plan and starting points for implementation activities.

Costa Rica:

The primary contacts in Costa Rica were ICAFE and producer cooperatives. On the basis of discussions with these organizations the following were identified as priority activity areas:

- Establishing standards and procedures for processing quality coffee to differentiate it from commercial coffees.
- Training in business management in processing mills and producer cooperatives and developing computer software for administration.
- Evaluating and certifying processing facilities for coffee quality and good processing practices.
- Training in quality control and evaluation.

Two second-level cooperative associations and six cooperatives were identified as potential candidates for technical assistance in enterprise development, quality control and marketing.

Dominican Republic:

Contacts during the visit were the French technical assistance program for coffee, the specialty coffee association (ADOCafés), the *Consejo Dominicano del Café* (CODOCAFE), a second-story cooperative association (FEDECARES) and one of its member cooperatives and a small, up-scale hotel chain. On the basis of discussions with these organizations the following were identified as priority activity areas:

- Close collaboration with the French program for:
 - identifying cooperative clients
 - identifying and promoting quality Dominican coffees
 - cooperative enterprise development
 - technical assistance and training in quality evaluation and control
- Evaluate the opportunity for, and perhaps design, an internal coffee marketing activity aimed at the tourist, and subsequent export, trade

- Support ADOCAFÉS define its role in furthering quality coffee and promote collaboration with similar associations.

El Salvador:

Principal contacts included the *Consejo Salvadoreño del Café*, two quality coffee associations, and first and second-level producer cooperatives and associations. On the basis of discussions with these organizations the following were identified as priority activity areas:

- Support the formation of a more representative specialty coffee association
- Develop a promotion program for Salvadoran coffees
- Provide technical assistance and training in quality evaluation and control in the *Consejo* laboratory
- Provide technical assistance to PROEXCAFE, a USAID-assisted second level cooperative organization
- Technical assistance and training in coffee processing

Guatemala:

The principal organizations contacted have been the National Coffee Association (ANACAFE), a second-level cooperative federation (FEDECOCAGUA) and the organization for non-traditional agricultural exports (AGEXPRONT). [Note: ANACAFE plays a multifaceted role in Guatemala in that it assumes the role of producer organization, specialty coffee association, policy proponent and export regulator.]

On the basis of discussions with these organizations the following were identified as priority activity areas:

- Evaluate the pros and cons of alternatives to the current NYBOT coffee exchange CADR coffee pricing according to the quality market
- Standardization of coffee classification terminology
- Increase consumption of quality coffee in the internal market
- Education and training in coffee quality: production and evaluation

Honduras:

The primary organizations consulted were the *Instituto Hondureño del Café* (IHCAFE), *Consejo Nacional del Café*, Association of Specialty Coffee, *Fundación del Desarrollo* (FUNDER), Asociación Hondureño de Productores del Café (APROCAFE), and two cooperative groups (COHORSIL and *Coordinadora de Café Precio Justo*). Tentatively, the following areas of interest and potential were identified:

- Training in quality evaluation and cupping at the national and local level
- Technical assistance in improving quality among selected cooperatives

- Support the specialty coffee association in defining its mission and increasing membership
- Support in developing market relationships

Nicaragua:

Contacts were made with an association of coffee cooperatives CAFENICA, the specialty coffee association, faith-based organizations interested in direct marketing in the USA and selected exporters. On the basis of discussions with those organizations the following were identified as priority activity areas:

- Establishing a marketing plan for the faith-based organizations (Catholic Relief Services, Lutheran World Relief and World Relief)
- Presenting a plan for sustainable coffee certification of Nicaraguan coffee through Rainforest Alliance and/or Utz Kapeh
- Training in quality control and evaluation
- Organizational, management and marketing assistance to CAFENICA

Panama:

The principal organizations contacted were the specialty coffee association, and three small producer cooperatives or associations: Renacimiento in the area of Volcán, with an association of Ngoba Buglé Indigenous group in the region of Boquete and the cooperative La Esperanza in the area of Santa Fe.

On the basis of discussions with these organizations the following were identified as possible activity areas:

- Improving quality among small producers, especially in wet milling and quality control
- Examination of increasing demand for quality coffee in the internal market
- Supporting an expanded specialty coffee association

2.1.3 Collaborators

Contact has been made with all principal collaborators, leading to the following actions:

Market Advisory Group (MAG):

The first meeting of the MAG was held in Boca Raton in the second week of March, in conjunction with the National Coffee Association meetings. The major conclusions stemmed from the MAG meeting:

- The current unfavorable situation is one of market, rather than production, and a solution or improvement must be lead by greater market demand for CADR coffees;

- There is concern as to the future of quality in the CADR region and the effect of three years of below-production-cost prices are already validating that concern;
- Promoting the CADR and its similar coffee profile is a necessary alternative or complement to promoting individual countries' coffees;

A second meeting of the MAG was scheduled for April, to coincide with the SCAA meetings in Boston. The April meeting will focus on possible approaches to promoting CADR coffees in the USA market.

Rainforest Alliance:

Rainforest Alliance certification will provide a primary tool for market differentiation of program coffees. Principal efforts in the first quarter of 2003 have been aimed at defining CADR/Rainforest collaboration and the best disbursement mechanism. Rainforest provided an outline of proposed activities that was reviewed and returned for modification. CADR petitioned USAID/G-CAP regarding the possibility of modifying the contract in order to permit sub-grants to Rainforest and other private and NGO entities.

TransFairUSA:

A meeting with TransFairUSA director, Paul Rice, was scheduled for April, during the SCAA meetings.

Utz Kapeh:

A meeting with Utz Kapeh personnel was scheduled for April, during the SCAA meetings.

Coffee Quality Institute:

Several meetings were held with CQI director Margaret Swallow, Stuart Adelson and David Roche to discuss collaboration. One request for Coffee Corps was coordinated with CQI for Honduras, which will result in the first technical assistance delivered through the CQI component of the CADR program. Further meetings will be held in Boston in April, when the new director of the CQI Alternative Markets program will have been selected.

III. Activities Programmed for the Second Quarter 2003

- 3.1 Submission of the first annual work plan for the period January - September 2003
- 3.2 Organize a private sector conference on regional collaboration for increasing market opportunities for CADR coffees
- 3.3 Conduct an evaluation and analysis of the several auction-based market events in the CADR region

- 3.4 Initiate a study of alternative market mechanisms for CADR quality coffees
- 3.5 Initiate an evaluation and plan for linking the internal market for quality coffee and tourism in the Dominican Republic
- 3.6 Conduct management and quality analyses in six cooperatives in the region
- 3.7 Initiate quality and cupper education and training at a regional level
- 3.8 Provide technical assistance to three wet milling operations
- 3.9 Initiate an analysis of major policy constraints and opportunities in the CADR region
- 3.10 Hold the second meeting of the Market Advisory Group
- 3.11 Define the working relationships with collaborating certifying organizations
- 3.12 Initiate activities with Rainforest Alliance
- 3.13 Initiate activities with faith-based organizations in Nicaragua
- 3.14 Draft work plans for incremental funding activities in El Salvador and Nicaragua
- 3.15 Bring three major buyers to the CADR region